

VZCZCXRO3511
RR RUEHFK RUEHGH RUEHKSO RUEHNAG RUEHNH
DE RUEHKO #1199/01 1230109
ZNR UUUUU ZZH
R 020109Z MAY 08
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC 3914
INFO RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEAWJA/JUSTICE DEPT WASHDC
RUEATRS/TREASURY DEPT WASHDC
RHEHAAA/NSC WASHDC
RUEHFR/AMEMBASSY PARIS 6070
RUEHUL/AMEMBASSY SEOUL 9126
RUEHBJ/AMEMBASSY BEIJING 3109
RUEHRL/AMEMBASSY BERLIN 1385
RUEHFT/AMCONSUL FRANKFURT 0480
RUEHOK/AMCONSUL OSAKA KOBE 1250
RUEHFK/AMCONSUL FUKUOKA 7571
RUEHKSO/AMCONSUL SAPPORO 8166
RUEHNAG/AMCONSUL NAGOYA 5936
RUEHNH/AMCONSUL NAHA 9958
RUEHGH/AMCONSUL SHANGHAI 0399
RUEHHK/AMCONSUL HONG KONG 6495
RUEHGV/USMISSION GENEVA 3301
RUEHIN/AIT TAIPEI 7003
RUEHBS/USEU BRUSSELS

UNCLAS SECTION 01 OF 05 TOKYO 001199

SIPDIS

SENSITIVE
SIPDIS

DEPT FOR EAP - AMBASSADOR HASLACH
DEPT ALSO FOR EAP/J AND EEB/OIA
DEPT PASS USTR FOR CUTLER, BEEMAN, KALLMER
NSC FOR TONG
TREASURY FOR AND IA/CARNES AND POGGI
USDOC FOR 4410/ITA/MAC/OJ
GENEVA FOR USTR

E.O. 12985: N/A
TAGS: [EINV](#) [PREL](#) [ECON](#) [OECD](#) [JA](#)
SUBJECT: FOREIGN INVESTMENT IN JAPAN: DIFFERENT REGIONAL APPROACHES

Refs: A) Tokyo 408
B) Tokyo 119
C) 07 Nagoya 59

Sensitive but Unclassified - Not for the Internet

¶1. (SBU) Summary: Japanese regional authorities' attitudes toward foreign direct investment are largely positive, but when it comes to attracting foreign investors, while some are aggressive, others are ineffective or downright clueless. Limited authority to offer tax or other incentives to potential investors is a further important constraint on prefectures' and cities' abilities to attract investment. The central government continues to play a major role and some regions look to the local branch of a ministry, e.g., METI, to lead in directing/ implementing investment promotion strategies. Creative local approaches can work, as successes in the Nagoya region demonstrate. A lack of sufficient data to show which policies work, however, undercuts local, regional, and national abilities to evaluate programs and to adjust efforts accordingly.

¶2. (SBU) Without more energetic and focused efforts by regional governments, and the ability to make more far-reaching concessions on tax and other issues of concern to potential investors, the national-level institutions will keep their hold on FDI promotion. Such a situation reinforces the trend for growth in Tokyo and a few other regions, even though the result is one that contributes to public unease with growing economic disparities within Japan. As in any country, some part of Japan will do better than others when it comes to attracting foreign investment. Right now, though, it seems the GOJ relies on old patterns rather than making needed changes. This cable is the first of two reports on regional investment trends

produced jointly by Embassy Tokyo and Consulates Fukuoka, Nagoya, Naha, Osaka Kobe, and Sapporo. The second will look at policy implications and how the U.S. might encourage regional efforts to attract and to use FDI. End Summary.

13. (U) Foreign direct investment continues to flow into Japan. According to preliminary Ministry of Finance (MOF) statistics, the net inflow of FDI in the first two months of 2008 was \$3.85 billion, despite a concurrent outflow of portfolio investment, a sharp decline in the Tokyo Stock Exchange indices, and a number of high-profile government actions suggesting the GOJ might be taking steps to limit FDI. Government policy since 2001 has been to increase Japan's stock of FDI to stimulate economic growth and productivity. Between 2001 and 2007, Japan's FDI stock tripled as a share of GDP, from less than one percent to approximately three percent or 15.4 trillion yen (\$146 billion.) The GOJ hopes to raise that figure to the equivalent of five percent of GDP by the end of JFY-2010 (March 2011), a share still well below the average levels in other OECD countries.

Investment Flows: Few Regional Data

14. (U) The Bank of Japan and MOF maintain good data on nationwide investment stock and flow, based on balance of payments figures. However, it is difficult to get an accurate statistical picture of regional patterns. Local government contacts state the lack of statistics makes it difficult for them to track success and is an obstacle to promoting FDI.

15. (SBU) Some prefectural governments collect information on FDI success stories, but data are often incomplete or out of date.

TOKYO 00001199 002 OF 005

Fukuoka officials maintain an internal list of foreign companies operating in the prefecture that includes the location, nationality and business sector of the invested firm, but not the value of individual investments. Neighboring Kumamoto collects information only on greenfield FDI investment. Kumamoto's list thus shows only 11 foreign investments in the prefecture and none since 2005. Mie, southwest of Nagoya, reports, as of April 2008, 21 manufacturing enterprises in the prefecture and 16 non-manufacturing enterprises with at least 50 percent foreign ownership, but, again, with no estimate of investment value. Hokkaido does not collect information on FDI leaving the task to the regional branch of the Japan External Trade Organization (JETRO) -- which has not updated its list in five years. Miyagi prefecture in northern Honshu maintains a list of foreign companies in the prefecture on its website, which is updated annually.

16. (SBU) The private sector M&A consultancy Recof collects data on M&A deals by prefecture, but defines "inward" M&A as any investment originating outside the prefecture. Recof does not distinguish between cross-border and domestic deals. Nevertheless, Recof's data do indicate which regions are net recipients of outside investment. The vast majority of inward M&A deals in 2007 (181 out of 308) target the greater Kanto region (Tokyo and its three surrounding prefectures of Kanagawa, Chiba, and Saitama.) The next largest number of deals (46) was in the three central Kansai prefectures of Osaka, Hyogo, and Kyoto. These seven prefectures account for 45 percent of Japan's GDP and 73 percent of Japan's inward M&A.

Nagoya: Enthusiastically Promoting FDI

17. (SBU) Not surprisingly, there is a wide variety in the type of investment regions seek and receive, taking advantage of different geographic factors and different economic and industrial bases. The most impressive, and arguably most successful, is the Greater Nagoya Initiative (GNI). The GNI's stated mission is to bring world class companies, technologies, human resources and information to Central Japan's Chubu region. The GNI offers "one-stop" service for potential foreign investors, including research, public relations, and business matching services -- and also holds investment promotion conferences and seminars throughout the year, often focusing on specific sectors (e.g., robotics or health care). The

GNI also provides advice on legal and regulatory requirements and free temporary office space to prospective investors, services JETRO alone provides in other regions.

¶18. (SBU) Most Chubu regional governments also have individual economic development offices that court foreign investment. Local governments welcome all types of investment, but target firms that complement the region's existing high-tech industrial base in DRAM flash memory and auto parts. Mie's incentive programs have attracted FDI in producing large screen LCDs and integrated circuits by touting the prefecture's central location and concentration of manufacturing industries.

¶19. (SBU) Other recent investment successes in the Chubu region are in logistics/distribution. Nagoya port hosts the Nippon Juice Terminal, essentially a tanker terminal for orange juice concentrate, owned by Brazil's Iosco Corporation, through which almost 50 percent of Japan's imported orange juice passes. The terminal, used jointly by both Coca-Cola and Pepsico, was built in 1992 after liberalization of the Japanese citrus market and is a good example of how trade liberalization can lead directly to FDI.

TOKYO 00001199 003 OF 005

¶10. (SBU) Auto parts maker Dana Corporation's \$10 million Toyohashi technical center is an example of local creativity playing a key role in attracting FDI. Toyohashi's proximity to the heart of the Japanese auto industry was the main factor for choosing the location. But the reduced land price offered by Toyohashi City was also important. Moreover, Toyohashi "warranted" the site by offering to repay Dana's purchase price after ten years, if Dana decides to close the project and returns the land in its original condition.

Kyushu looks to Asia

¶11. (SBU) Kyushu, in southwestern Japan, seeks to use proximity to China and Korea to attract FDI. Greenfield investment in the region is limited and mostly a niche market, but real estate investment is increasingly important. According to the Kyushu branch of the Development Bank of Japan, northern Kyushu, and in particular Fukuoka, is attracting money from abroad, especially real estate investment funds, and the average land price, although still only half that of comparable property in Tokyo, has increased rapidly in the past two years. United States and European investment funds are particularly active as are sovereign wealth funds. In March 2007, Singapore's Government Investment Corporation purchased "Hawks Town", a multi-use commercial development along Fukuoka's waterfront.

¶12. (SBU) Local leadership is also an important contributor to success. Fukuoka Governor Wataru Aso, head of the Japan Governor's Association and an articulate advocate for pro-investment policies, looks to Asia for FDI and believes companies must have a global outlook. The governor thinks young Asians' interest in "J-Pop" culture and animation can help Kyushu-based businesses and attract investment.

¶13. (SBU) Fukuoka also seeks to attract companies requiring high quality inputs -- such as stable energy supplies or clean water -- that may be reluctant to build facilities in developing countries, according to the Business Development section of the Fukuoka prefectural government. Some foreign auto parts companies have moved to Kyushu to take advantage of rising auto production there. Fukuoka is now an important parts manufacturing center and local businesses are benefiting from the spillover effect. Auto parts manufacturers that set up to supply Toyota now do business with other manufacturers like Nissan. In addition, Fukuoka's government has hired private sector experts to work in promoting IT, semiconductors, biotech, environmental technology and hydrogen energy.

Hokkaido and Tohoku Have a Domestic Focus

¶14. (SBU) Northern Japan is the opposite of Kyushu. There are few regional strategies for attracting foreign investment. Hokkaido's Prefectural Government maintains a web-based "Business Investment Guide" in Japanese, English, Chinese and Korean that lists Hokkaido's two overseas offices, in Singapore and Seoul, even though the former closed in March 2008. However, nothing on the site specifically targets foreign investors. Instead, prefectural officials here woo domestic investment. For example, most regional governors make pilgrimages to Nagoya seeking investment from Toyota or its suppliers, and Hokkaido, Aomori, Akita and Iwate prefectures have set up investment promotion offices in Nagoya.

TOKYO 00001199 004 OF 005

¶15. (SBU) Miyagi Prefecture, centered on the city of Sendai, is unique in the region for its outward orientation. As in Kyushu, personalities are important. Both Miyagi Governor Murai and Sendai Mayor Umehara -- the latter a former METI official -- take a personal interest in promoting investment. Sendai was the site of the U.S.-Japan Investment seminar in October 2006. Although several recent investment successes are associated with domestic companies, many local officials speak positively about FDI and credited the sharp land price increases around Sendai's train station to an influx in FDI. This welcoming attitude towards foreign investors is clearly a factor in Sendai's success.

¶16. (SBU) Meanwhile, investment in the rest of Tohoku has stalled. Officials from Aomori, Honshu's northernmost prefecture, admit it has received no FDI in recent years and neither the local government nor the regional JETRO office collects data on foreign investment. Aomori's Industrial Promotion Guide describes incentives for firms that create new employment opportunities, but targets Japanese multinationals. Likewise, Akita prefectural officials could only identify a single foreign-owned company in the prefecture, and that was the result of the foreign acquisition of the firm's Tokyo-based parent. Neighboring Iwate has only a Japanese language "Corporate Location Guide" for prospective investors and does not appear to make any special effort to attract foreign investment.

Kansai: Building on Regional Expertise

¶17. (SBU) Local governments in the Kansai are aggressive in courting specific types of FDI. Osaka and its neighbors look more to mainland Asia than to other potential sources, with more than half of Osaka's FDI coming from Japan's neighbors. Asian investment also tends to be smaller scale compared to U.S. or European investment, according to METI Kansai Bureau. As with other regions, local governments have done a poor job in tracking the value of inward FDI, which hampers efforts to improve the situation.

¶18. (SBU) A brake on international penetration is Kansai's conservative corporate culture that prides itself on the region's history and ability to provide for itself without outside interference. For companies with high tech patents and global market share, this pride has sometimes been an obstacle to new ideas from abroad. Local businesses tend to see foreign investors as corporate rivals rather than partners.

¶19. (SBU) Osaka does encourage FDI in distribution, wholesale, and device manufacturing sectors but, due to higher operating costs, does not actively seek greenfield investment in manufacturing. Still, Corning Glass has partnered with Sharp to provide high quality glass for a new flat panel display plant under construction south of Osaka. Kansai is a second priority market for service investment, such as the finance and insurance sectors, while Nara seeks to boost tourism by promoting international hotel construction.

Okinawa Follows its Own Path

¶20. (SBU) Okinawa, Japan's southernmost prefecture, is unique, both for its distance from Japan's main islands and the economic impact of U.S. military bases. Foreign investment centers largely on the tourism sector. American investment funds own 18 hotels and four

golf courses. Local officials estimate, over the next five years, there will be as many as 24 new hotel projects, totaling some 4000

TOKYO 00001199 005 OF 005

rooms, at a cost of \$1.6 billion. Taiwan investment is an important factor, given its geographic proximity.

¶21. (SBU) Another growing sector for FDI in Okinawa is telephone call centers, and there is discussion of developing the prefecture as an IT hub. Since 1990, government efforts spurred creation of 51 call centers and another 111 IT-related companies. Together, these companies employ 14,700, the majority in call centers. Last year, Citigroup purchased land close to Naha International Airport and announced plans to invest \$43 million in a new management center, which will serve as a back up to its Tokyo Center and also function as a call center.

¶22. (SBU) Petroleo Brasileiro S.A., Brazil's national petroleum company, agreed in November 2007 to buy the local oil refinery facility of Tonen General Oil (a subsidiary of Exxon Mobil). Petroleo Brasileiro plans to invest up to \$1 billion into this facility to build a base for introducing Brazilian biofuel and petroleum products into Japan and Asian regional markets.

Chugoku: National Institutions Take the Lead

¶23. (SBU) In the Chugoku region of Western Japan, the Industrial Promotion Division of METI's regional office runs an active Invest Japan program and publishes an impressive English language guide with extensive economic, demographic and social data on the region. The agency's promotional material describes the business advantages of the six individual prefectures as well as of the region as a whole. The bureau has identified auto manufacturing, information technology and communications, and biotechnology as priority areas for investment. It also encourages investment in emerging industrial sectors that build on existing regional specialization including "key industries for the next generation" such as "mechatronics" (the intersection of mechanics and electronics), and flat-panel displays. Officials also promote environmentally friendly energy production, such as woody biomass.

Comment

¶24. (SBU) Local governments do not have the tools available to their counterparts in the U.S. or other countries to attract foreign investment and the resulting economic activity. The result is further growth in Tokyo and its environs along with a few other centers. As a result, the trends leading to economic disparities decried by the Japan's public and politicians continue.

SCHIEFFER